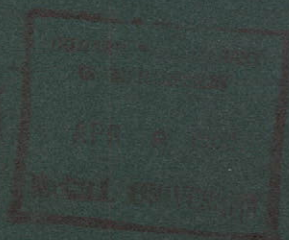


MCINTYRE MINES

ANNUAL REPORT 1982



Annual Meeting

The Annual Meeting of the Shareholders will be held on Monday, May 2, 1983 at 10:00 a.m. (Calgary Time) in the Bonavista Room, of The Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta. A formal notice of this meeting together with the management proxy circular and a form of proxy, are being mailed to shareholders with this report.

McINTYRE MINES LIMITED

REGISTERED AND
EXECUTIVE OFFICES
Three Calgary Place
14th Floor
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN that the annual meeting of the shareholders of McIntyre Mines Limited (the "Corporation") will be held in the Bonavista Room, Westin Hotel, 320 Fourth Avenue S.W., Calgary, Alberta, Canada, on Monday, May 2, 1983, at 10:00 o'clock in the forenoon, Calgary time, for the following purposes:

1. to receive the Annual Report and financial statements for the financial year ended December 31, 1982 and the report of the auditor;
2. to elect directors;
3. to appoint an auditor and authorize the directors to fix the auditor's remuneration; and
4. to transact such further and other business as may properly come before the meeting.

DATED at the City of Calgary, Alberta, this 30th day of March, 1983.

By Order of the Board

William M. Bone
Corporate Secretary

Shareholders who are unable to attend the meeting in person are requested to date, sign and return, in the envelope provided for that purpose, the enclosed form of proxy. Forms of proxy to be used at the meeting must be deposited with the Corporation's transfer agent, Canada Permanent Trust Company, 311 Sixth Avenue S.W., Calgary, Alberta, T2P 0R6, before 10:00 o'clock in the forenoon, Calgary time, on Friday, April 29, 1983.

McINTYRE MINES LIMITED

FORM OF PROXY

THIS PROXY IS SOLICITED BY MANAGEMENT IN RESPECT OF THE
ANNUAL MEETING OF SHAREHOLDERS TO BE HELD
May 2, 1983

The undersigned shareholder of McIntyre Mines Limited (the "Corporation") hereby nominates, constitutes and appoints P. J. Urso, whom failing F. C. Ackman, whom failing A. R. Nielsen, or instead of them

_____ as nominee of the undersigned to attend and act and vote for and on behalf of the undersigned at the annual meeting of shareholders of the Corporation to be held on May 2, 1983, and any adjournment thereof, in the same manner, to the same extent and with the same power as if the undersigned were personally present thereat on all matters properly coming before the meeting. Without otherwise limiting the general power and authority hereby given the shares represented by this proxy are to be

(a) VOTED ☐ for F. C. Ackman, M. A. Cooper, E. C. Manning, A. R. Nielsen, J. B. Redpath, and P. J. Urso, in respect of the election of directors or WITHHELD FROM VOTING ☐ for the foregoing nominees, or alternatively, for any nominees whose names are inserted in the following space:

(b) VOTED ☐ or WITHHELD FROM VOTING ☐ in respect of the appointment of Arthur Andersen & Co. as auditor of the Corporation.

Each shareholder has the right to appoint a person to represent him at the meeting other than the persons designated herein. Such right may be exercised by inserting in the blank space provided the name of the person to be appointed (who need not be a shareholder) or by completing another proper form of proxy.

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The shares represented by this proxy will be voted in accordance with any instructions given. In the absence of any instructions, such shares will be voted for the nominees set out above in respect of the election of directors and for the appointment of Arthur Andersen & Co. as auditor, and will be voted for all other matters proposed by management.

The undersigned hereby revokes any proxies heretofore given.

Signature _____
(Please sign name exactly as stencilled hereon)

DATED this _____ day of _____, 1983.
If this form of proxy is to be used, it must be dated and signed by the shareholder or his attorney authorized in writing. If this form of proxy is not dated in the place provided it is deemed to bear the date on which it is mailed by management.

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The management soliciting this proxy asks you to sign and return it promptly.

Forms of proxy to be used at this meeting must be deposited with the Corporation's transfer agent, Canada Permanent Trust Company, at 311 Sixth Avenue S.W., Calgary, Alberta T2P 0R6, before 10:00 o'clock in the forenoon, Calgary Time, on Friday, April 29, 1983.

McINTYRE MINES LIMITED

Three Calgary Place
14th Floor
355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3

MANAGEMENT PROXY CIRCULAR

Annual Meeting of Shareholders

May 2, 1983

SOLICITATION

This Management Proxy Circular ("Circular") is furnished in connection with the solicitation of proxies by management of McIntyre Mines Limited ("Corporation") pursuant to a resolution of the directors for use at the annual meeting of shareholders of the Corporation to be held in Calgary, Alberta on May 2, 1983, at the time and place and for the purposes set forth in the accompanying Notice of Meeting ("Notice").

It is expected that the solicitation will be primarily by mail, but may be supplemented by telephone or other personal contact to be made without special compensation by regular officers and employees of the Corporation. The Corporation will reimburse shareholders' nominees or agents for the costs incurred in sending solicitation materials to and obtaining instructions from their principals. The entire cost of solicitation will be borne by the Corporation.

The Notice, Circular and accompanying form of proxy will be first mailed to shareholders of the Corporation on or about March 30, 1983. Pursuant to the Canada Business Corporations Act ("Act") the record date for shareholders entitled to notice of the meeting is at the close of business on the day immediately preceding the day on which the Notice is mailed. On March 15, 1983 the Corporation had outstanding 3,669,573 common shares without nominal or par value ("Common Shares") each of which carries one vote at the meeting.

VOTING, PROXIES AND QUORUM

Pursuant to the Act, the Corporation will prepare a list of shareholders indicating the number of Common Shares held by each such shareholder at the close of business on the day immediately preceding the day on which the Notice is mailed. Every person named on the list is entitled to one vote for each Common Share shown opposite his name on the list, except to the extent that he has transferred ownership of any of his Common Shares after the date on which the list was prepared and the transferee thereof produces properly endorsed share certificates or otherwise establishes that he owns the shares and demands not later than ten days before the meeting that his name be included in the list before the meeting, in which case such transferee is entitled to one vote for each of his Common Shares at the meeting. Shareholders may examine the list during usual business hours at the offices of Canada Permanent Trust Company, 311 Sixth Avenue S.W., Calgary, Alberta T2P 0R6 and at the meeting.

Anyone who desires to be represented at the meeting by a proxyholder or proxyholders (who are not required to be shareholders) must deposit a properly completed form of proxy with the Corporation's transfer agent, Canada Permanent Trust Company, at the address noted above before 10:00 o'clock in the forenoon, Calgary time, on April 29, 1983. Shares represented by a properly executed proxy in favour of a person whose name is printed on the accompanying form of proxy will be voted or withheld from voting on any ballot that may be taken in accordance with the choice specified in the proxy. **If no specification is made to vote otherwise or to withhold from voting, the shares will be voted to elect as directors the nominees listed herein and to appoint Arthur Andersen & Co. as auditor.**

The accompanying form of proxy confers discretionary authority with respect to amendments to the matters identified in the Notice and other matters that may properly come before the meeting. Management of the corporation is not aware of any such amendments or other matters to come before the meeting. However, if any such amendments or other matters which are not now known to management shall properly come before the meeting, the person whose name is printed on the accompanying form of proxy will vote thereon in accordance with his best judgment.

The by-laws of the Corporation provide that two individuals present in person, each of whom is a shareholder or proxyholder entitled to vote at the meeting, shall constitute a quorum for the appointment of the chairman and the adjournment of the meeting, and for all other purposes at least three individuals present in person, each of whom is a shareholder or a proxyholder entitled to vote at the meeting and who together hold or represent by proxy not less than 25% of the total number of shares carrying the right to vote at the meeting, shall constitute a quorum for the transaction of business.

REVOCATION OF PROXIES

A shareholder may revoke a proxy by depositing an instrument in writing executed by him or by his attorney authorized in writing at the registered office of the Corporation at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of the meeting on the day of the meeting or any adjournment thereof, or in any other manner permitted by law, including, without limitation, by subsequently appointing, in writing, another person as proxy.

PRINCIPAL HOLDERS OF VOTING SHARES

The following table identifies the only persons who, to the knowledge of the directors and officers of the Corporation, beneficially own, or exercise control or direction over, more than 5% of the Common Shares (being the only outstanding class of voting securities of the Corporation), the approximate number of shares so owned, controlled or directed by each such person and the percentage of voting shares of the Corporation represented by the number of shares so owned, controlled or directed. No other person is known by the Corporation to own beneficially more than 5% of the outstanding Common Shares.

	Number of Common Shares Owned, Controlled or Directed	Percentage of Outstanding Voting Shares Represented
Canadian Superior Oil Ltd. ⁽¹⁾ 355 Fourth Avenue S.W. Calgary, Alberta	967,889	26.4%
The Superior Oil Company ⁽²⁾ First City National Bank Building Houston, Texas	974,645	26.6%

- (1) Voting and investment power is shared with The Superior Oil Company ("Superior") which owns all of the voting shares of Canadian Superior Oil Ltd. ("CSO" or "Canadian Superior").
- (2) Superior has sole voting and investment power with respect to all of the shares indicated. It does not include 967,889 shares owned by CSO shown above with respect to which Superior shares voting and investment power and does not include 175,825 (4.8%) Common Shares owned directly by Falconbridge Limited ("Falconbridge"). The Corporation owns 1,848,414 (26.5%) of the equity shares of Falconbridge.

Management understands that Mr. H. B. Keck, a director of Superior, has sole voting and investment power with respect to approximately 11.47% of the outstanding shares of common stock of Superior and thus may be deemed to be a controlling person with respect to Superior, CSO and the Corporation.

ELECTION OF DIRECTORS

The articles of the Corporation provide that the number of directors shall consist of a minimum of 6 and a maximum of 11 and the actual number of directors may be determined from time to time by resolution of the directors. The directors have determined by resolution that there will be 6 directors.

Unless otherwise specified on the accompanying form of proxy, it is the intention of the persons named therein to vote for the election of the 6 persons named herein. The directors will be elected by a majority of the votes cast in respect of the election of directors at the meeting. Each director elected will hold office, subject to the by-laws until the next annual meeting of shareholders or until his successor is duly elected or appointed in accordance with the by-laws. There are no directors of the Corporation presently in office whose term of office will continue after the date of the meeting.

Management has no reason to believe that any of the persons listed below will be unable or unwilling to serve as a director, but if that should occur for any reason prior to the meeting, proxies specifying that they are to be voted for the nominees listed below will be voted for substitute nominees in the discretion of the proxies named therein. Proxies in the accompanying form cannot be voted for a greater number of persons than the number of persons listed below.

Listed below for each nominee is his name and municipality of residence, age, the year in which he became a director of the Corporation, principal occupation and business experience for the past five years and directorships in certain publicly held corporations.

Name and Municipality of Residence	Age	Principal Occupation and Business Experience	Year	Directorships of Certain Publicly Held Corporations⁽¹⁾
FREDERIC C. ACKMAN Houston, Texas ⁽²⁾⁽⁴⁾⁽⁵⁾	52	President, Chairman and Chief Executive Officer of Superior, Houston, Texas since September 4, 1981; President & Chief Operating Officer of Superior from May 27, 1981 to September 4, 1981; Executive Vice-President and Chief Operating Officer of Superior from February 2, 1981 to May 27, 1981; Executive Vice-President of Exxon Co., U.S.A. (petroleum producer and refiner), 1978-1981; Director and Executive Vice-President of Esso Eastern Inc., 1977-1978; President of Esso Exploration, 1972-1977	1981	Superior Falconbridge First City Bancorporation of Texas, Inc.
MARSH ALEXANDER COOPER Toronto, Ontario	70	Consultant to Falconbridge since June 1980; prior thereto President and Chief Executive Officer of Falconbridge, Toronto, Ontario for more than the past 5 years	1962	Superior Falconbridge
ERNEST CHARLES MANNING Edmonton, Alberta ⁽²⁾⁽³⁾⁽⁴⁾	75	Member of the Senate of Canada; Chairman, Manning Consultants Ltd. (management consultants), Edmonton, Alberta for more than the past 5 years	1969	
ARNE RUDOLF NIELSEN Calgary, Alberta ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	57	Chairman and Chief Executive Officer of Canadian Superior, Calgary, Alberta from February 1982, President and Chief Executive Officer of Canadian Superior from January 1978 to February 1982; Executive Vice President of Canadian Superior from November 1977 to January 1978; President and General Manager of Mobil Oil Canada Ltd. (petroleum producer and refiner) for more than 5 years prior to November 1977	1978	
JAMES BOTTERELL REDPATH Toronto, Ontario ⁽²⁾⁽³⁾	75	Retired since 1978; prior thereto President of Dome Mines Limited, Campbell Red Lake Mines Limited and President and Chairman of Sigma Mines (Quebec) Limited; Chairman of Canada Tungsten Mining Corporation Limited	1978	Dome Mines Limited
PHILIP JOSEPH URSO Calgary, Alberta ⁽²⁾	51	President, Chairman and Chief Executive Officer of the Corporation since November 5, 1981; President and Chief Operating Officer of the Corporation since January 7, 1981; Vice-President Operations and Development of Fording Coal (coal producer) from 1978 to January, 1981; General Manager of Fording Coal and Canpac Minerals from 1974 to 1978	1981	

- (1) Includes only corporations whose securities are registered under the United States Securities Exchange Act of 1934.
- (2) Member of the Executive Committee
- (3) Member of the Audit Committee
- (4) Member of the Compensation Committee
- (5) Also a director of CSO

SHAREHOLDINGS OF MANAGEMENT

The following table indicates the number (and percentage of the class) of shares of the Corporation and Superior beneficially owned, controlled or directed by directors and nominees for election as directors of the Corporation and by all directors and officers as a group. Under rules of the Securities and Exchange Commission ("SEC") of the United States, to which the Corporation is subject, a person who directly or indirectly has or shares voting or investment power with respect to a security is considered to be a beneficial owner of the security. All share ownership reflected in the table below refers to sole voting and investment power, however, certain persons lack voting and investment power as to shares held for their account in employee benefit plans. No officer or director owns more than 1% of the shares of the Corporation and/or Superior.

Name or Group	Corporation	Superior
F. C. Ackman	nil	82,937 ⁽¹⁾
M. A. Cooper	4,020	43,775
E. C. Manning	nil	nil
A. R. Nielsen	nil	52,874 ⁽¹⁾
J. B. Redpath	750	nil
P. J. Urso	5,000 ⁽¹⁾	500
All directors and officers as a group (11 persons including those listed above)	9,770	180,086

- (1) Includes 81,249 exercisable options to purchase Superior shares held by F. C. Ackman, 52,874 exercisable options to purchase Superior shares by A. R. Nielsen and 5,000 exercisable options to purchase the Corporation's shares held by P. J. Urso.

This information as to shares, not being within the knowledge of the management, is based upon data furnished to the Corporation by or on behalf of the persons referred to above as of March 15, 1983.

MEETINGS

The board of directors met six times during 1982 and passed one resolution in writing in lieu of a meeting. The board of directors of the Corporation has established an executive committee, a compensation committee and an audit committee. The Corporation does not have a nominating committee or a committee performing a similar function. Membership of the directors on each of the committees is indicated on the list of nominees for election shown above.

The audit committee is required to review the Corporation's financial statements prior to submission to the board of directors for approval. During 1982, the audit committee held one meeting. The executive committee meets on call and may exercise all the powers of the board of directors to the extent permitted by law. During 1982, the executive committee held no meetings. The compensation committee meets from time to time to review and consider the remuneration payable to directors, officers and key employees of the Corporation and to present recommendations to the board of directors which is responsible for fixing the remuneration of these persons. The committee also administers the 1980 Executive and Key Employees Share Option Plan. The compensation committee met on two occasions during 1982.

During the year 1982, all directors and members of the committees attended all of the respective meetings except Mr. Cooper, who was absent from one meeting of the board of directors.

DIRECTORS' AND OFFICERS' REMUNERATION FROM THE CORPORATION AND ITS SUBSIDIARIES

Effective, January 1, 1983, each director other than an officer of any affiliate of the Corporation is paid \$7,500

per annum and may also be reimbursed for out-of-pocket expenses incurred in attending meetings of the directors. No additional compensation is payable for membership on or attendance at meetings of committees of the board.

The following table sets forth all remuneration paid by the Corporation and its subsidiaries in respect of the Corporation's last completed financial year to:

- (a) the directors of the Corporation in their capacity as directors of the Corporation and any of its subsidiaries; and
- (b) the officers of the Corporation who received in their capacity as officers or employees of the Corporation and any of its subsidiaries aggregate remuneration in excess of \$40,000.

Nature of Remuneration Earned						
	Directors' fees	Salaries	Bonuses	Non-accountable expense allowances	Others ⁽¹⁾	Total
REMUNERATION OF DIRECTORS						
(A) Number of directors: 6						
(B) Body Corporate incurring the expense:						
McIntyre Mines Limited	\$22,500	\$130,000	\$30,000	nil	\$ 7,136	\$189,636
REMUNERATION OF OFFICERS						
(A) Number of officers: 5						
(B) Body Corporate incurring the expense:						
McIntyre Mines Limited	nil	330,946	27,000	nil	38,024	395,970
TOTALS	\$22,500	\$460,946	\$57,000	nil	\$45,160	\$585,606

- (1) Includes the amount of taxable benefits received under the Corporation's Home Mortgage Assistance Plan and amounts reimbursed to CSO by the Corporation under a CSO employee savings plan in which an officer of the Corporation participates.

The following table sets forth, using the format and definitions required by the SEC, all remuneration paid or accrued for services in all capacities to the Corporation and its consolidated subsidiaries during 1982 to each of the five most highly compensated directors and executive officers and to all directors and officers as a group.

Name of individual or number of persons in group	Capacities in which served	Cash and cash-equivalent forms of remuneration		
		Salaries, fees, directors' fees, commissions, bonuses	Securities or property, insurance benefits or reimbursement, personal benefits	Aggregate of contingent forms of remuneration ⁽¹⁾
J. P. L. Bacharach	Vice-President, Operations	\$104,480	\$20,835 ⁽²⁾	\$90,035 ⁽⁴⁾
E. J. Bethell ⁽³⁾	Executive Vice-President	77,400	3,624	—
W. M. Bone	General Counsel & Corporate Secretary	59,008	13,674 ⁽²⁾	38,500 ⁽⁴⁾
P. J. Urso	Chairman, President and Chief Executive Officer	160,000	10,843 ⁽²⁾	121,316 ⁽⁴⁾
J. C. Poss	Vice President, Finance & Planning	94,960	31,820 ⁽²⁾	79,285 ⁽⁴⁾
All Directors and Officers as a group (11 persons including those listed) ⁽⁴⁾		<u>\$540,446</u>	<u>\$81,921</u>	<u>\$329,136</u>

- (1) The Corporation's Retirement Plan for Salaried Employees ("Retirement Plan") provides for fixed benefits in the event of retirement as at a specified age based on the final three-year average salary level. The contributions thereunder by the Corporation are on an actuarial basis. Members also make contributions under the Retirement plan based on salaries paid by the Corporation which are used to purchase retirement income. Mr. J. P. L. Bacharach is the only officer or director who is a participant in the Plan. No amounts were contributed by the Corporation to the Retirement Plan in the year ended December 31, 1982.
- (2) Includes estimated benefits arising from mortgage loans to employees.
- (3) Mr. Bethell retired from the Corporation on September 1, 1982.
- (4) Includes that portion of the bonuses payable, which can be calculated as of December 31, 1982, under the terms of the Agreements with Management which are discussed herein.

SHARE OPTION PLAN

The Corporation has set aside 150,000 Common Shares under the 1980 Executive and Key Employees Share Option Plan ("1980 Plan") under which the board of directors, on the advice of the compensation committee, may grant to certain executives and key employees options for terms of up to five years to purchase Common Shares for a price of not less than 90% of the average market value of such shares on the trading date next preceding the date on which the option is granted. The 1980 Plan also provides for share appreciation rights in tandem with the share options, which rights provide for cash payments in an amount equal to appreciation at the time of exercise. The 1980 Plan was adopted following approval by the shareholders of the Corporation on April 14, 1980.

The following table shows (i) the amount of options granted since December 31, 1981, (ii) the average per share exercise price, (iii) the net value of shares (market value less exercise price) or cash realized on the exercise of the options, (iv) options exercised since December 31, 1981, (v) the number of Common Shares subject to unexercised options as of December 31, 1982, and (vi) the potential unrealized value as of December 31, 1982, as to the 5 most highly compensated directors or executive officers of the Corporation whose aggregate remuneration in the year ended December 31, 1982 exceeded U.S. \$50,000 and as to all officers and directors as a group.

Common Shares	P. J. Urso	J. C. Poss	J. P. L. Bacharach	E. J. Bethell	W. M. Bone	All directors and officers as a group (7 persons including those listed)
Options granted January 1, 1982 to December 31, 1982						
Number of Shares	10,000	5,000	5,000	3,000	1,500	28,500
Average per Share Exercise Price ⁽¹⁾	29.25	29.25	29.25	29.25	29.25	29.25
Options exercised January 1, 1982 to December 31, 1982 ⁽²⁾						
Number of Shares	—	—	—	—	—	—
Net value realized in cash (market value less exercise price)	—	—	—	—	—	—
Unexercised options at December 31, 1982						
Number of Shares	20,000	7,000	8,500	nil ⁽³⁾	2,500	44,000
Potential (unrealized) value (market value less exercise price)	nil	nil	nil	nil	nil	nil

(1) The average per share exercise price represents 90% of the average market value on the trading date preceding the date of grant.

(2) As of December 31, 1982, no options granted under the 1980 Plan had been exercised.

(3) Mr. Bethell resigned from the Corporation on September 1, 1982 and all options held by him expired 90 days thereafter.

In addition as of March 15, 1983, other employees of the Corporation as a group held options outstanding under the 1980 Plan for 6,000 Common Shares at average option prices per Common Share of \$38.17.

The following two tables set forth certain additional particulars concerning the granting of options to directors and officers of the Corporation and the exercise of options pursuant to the 1980 Plan during the period January 1, 1982 to March 15, 1983.

OPTIONS GRANTED

Date of Grant	Number of Common Shares	Option Price Per Share	Expiration Date of Option	Price Range During 30 Day Period Preceding Date of Grant ⁽¹⁾
May 3, 1982	28,500	29.25	May 3, 1987	\$31.00-\$34.00

(1) Highest and lowest prices at which the Common Shares were traded on The Toronto Stock Exchange

OPTIONS EXERCISED

Number of Common Shares	Total Purchase Price	Price Range During 30 Day Period Preceding Date of Purchase
nil	nil	N.A.

RETIREMENT PLAN

For many years the Corporation has had in effect the Retirement Plan for salaried employees including officers. The plan is voluntary and is funded by contributions from both the employee and the Corporation. Contributions are deposited with a corporate trustee. Compensation covered by the Retirement Plan includes only salaries.

Based on the assumption that the Retirement Plan is continued under its existing provisions and subject to the statutory limitations hereinafter described, the approximate retirement benefits to which employees, including officers, who participate in the Plan for the maximum length of time possible during employment would become entitled upon normal retirement are illustrated below.

Annual Retirement Income at Age 65 Based on Average Length of Service

Average Annual Salary for Highest 36 Months In Last 120 Months Preceding Retirement

	20 Years	25 Years	30 Years	35 Years	40 Years	45 Years
\$ 25,000	\$ 7,500	\$ 9,375	\$11,250	\$13,125	\$15,000	\$16,875
50,000	15,000	18,750	22,500	26,250	30,000	33,750
75,000	22,500	28,125	33,750	39,375	45,000	50,625
100,000	30,000	37,500	45,000	52,500	60,000*	60,000*
125,000	37,500	46,875	56,250	60,000*	60,000*	60,000*
150,000	45,000	56,250	60,000*	60,000*	60,000*	60,000*
175,000	52,500	60,000*	60,000*	60,000*	60,000*	60,000*
200,000	60,000	60,000*	60,000*	60,000*	60,000*	60,000*

* The maximum pension permitted by the plan and Canadian government regulation is \$60,000.

MORTGAGE LOANS

The Corporation provides financial assistance to certain key employees to acquire houses under the Corporation's Home Mortgage Assistance Policy. 13 key employees have received mortgage loans totalling \$836,514 of which \$793,900 was outstanding at December 31, 1982. Mr. Antony F. Johnstone received from the Corporation a \$45,000 interest free second mortgage loan which was repaid in full following his resignation from the Corporation effective April 30, 1982. Mr. Philip J. Urso, President, Chairman and Chief Executive Officer received a mortgage loan secured by his house in Calgary in 1981 in the amount of \$68,000 for a term of 25 years, bearing interest at 5% per annum. Mr. William M. Bone, General Counsel and Corporate Secretary, received a mortgage loan, in 1981, in the amount of \$91,000 secured by his house in Calgary for a term of 25 years bearing 5% interest per annum. Mr. John C. Poss, Vice-President, Finance and Planning received a mortgage loan in 1981, in the

amount of \$145,000 secured by his house in Calgary for a term of 25 years, bearing 5% interest per annum. Mr. John P. L. Bacharach, Vice-President, Operations received a mortgage loan, in 1982, in the amount of \$150,000 secured by his house in Calgary for a term of 25 years bearing 7% interest per annum. Mr. Douglas P. Kathol, Treasurer and Controller received, in 1982, a \$33,439 second mortgage loan which is interest free and must be repaid in staggered payments over the next 10 years. All of the remaining 7 loans are interest free and must be repaid on a staggered schedule of increasing payments over 10 years. All mortgage loans become due and payable upon termination of the employee's employment for any reason or upon sale of the subject property.

AGREEMENTS WITH MANAGEMENT

As a result of the difficult circumstances faced in 1982 by the Canadian mining industry and by the Corporation, the board of directors determined that it was necessary to provide for the retention of certain key officers and employees during the period when the Corporation undertook to study all the options open to it, including the possible disposition of the coal operations. Accordingly, the board of directors approved employment agreements for certain of its key officers and employees, which provide for vesting by September 1, 1983.

The employment agreements which are effective as of May 28, 1982, provide for a bonus payment (which ranges between 18 months and 2 years compensation) on the vesting date. There is further provision for a payment equal to the sum of the appreciation in value (if any) of the Corporation's common shares between May 28, 1982 and the highest price quoted for the sale of a board-lot of the Corporation's shares at the Toronto Stock Exchange during the period from 30 days before the vesting date and 90 days after (both inclusive), plus any dividends thereon.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Pursuant to the Canada Business Corporations Act and the by-laws of the Corporation, the Corporation maintains insurance on behalf of its directors and officers against certain liabilities they may incur in their capacities as directors and officers of the Corporation and against the Corporation's liability or election to indemnify its directors and officers in respect of such liabilities. Such insurance provides for maximum payments to the Corporation and its directors and officers of \$10 million per loss subject to a maximum of \$10 million per policy year, with a deductible provision of \$10,000 per occurrence for each director and officer subject to a maximum deductibility of \$30,000 per policy year for all directors and officers as a group and a deductibility of \$100,000 in the aggregate per policy year in respect of the Corporation. The premium presently payable by the Corporation for such insurance is approximately \$25,000 per year. The premiums for the policies are not allocated between directors and officers as separate groups. No portion of the premium is paid by directors or officers.

SELECTION AND APPOINTMENT OF AUDITOR

The board of directors recommends the appointment of the firm of Arthur Andersen & Co. as auditor of the Corporation for the year 1983.

Arthur Andersen & Co. performed audit services in respect of the 1982 financial year that included an examination of the Corporation's consolidated financial statements for inclusion in the reports to shareholders and the SEC. Representatives of Arthur Andersen & Co. are expected to be present at the meeting with the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

CERTAIN TRANSACTIONS AMONG AFFILIATES

In previous years, the Corporation had in the normal course of its business entered into transactions with CSO for the acquisition and exploration of mining properties in various places. Exploration in two of these ventures continued in 1982. In one project the Corporation's participation was $16\frac{2}{3}\%$ and CSO was $33\frac{1}{3}\%$ and in the other case both the Corporation and CSO each contributed 50% of the cost. Approximately \$913,396, \$1,158,436 and \$793,246 was expended by the Corporation on these two ventures during 1980, 1981 and 1982 respectively.

On December 23, 1982, the Corporation and its wholly-owned subsidiary Smoky River Coal Limited (SRC) entered into a financing arrangement with CSO, whereby the Corporation agreed to sell its inventory of coal at stockpiles in or near Grande Cache, Alberta in rail transit and in stockpiles at the Neptune Terminals in North Vancouver, British Columbia to CSO for a price of \$18,160,000. Under the terms of this Agreement, SRC agreed to provide all shipping and transportation services at CSO's cost for the coal from Grande Cache, Alberta to Neptune Terminals. The Corporation also agreed to sell future inventories of coal to CSO for a price based on a formula which is approximately equivalent to the cost of production of the inventory. Under the terms of the Agreement, SRC agrees to purchase the inventory from CSO as may from time to time be required for delivery by the Corporation to

its customers at a unit price for such coal equal to the average cost of inventory in North Vancouver as determined on a FIFO basis, adjusted to give effect to a financing charge of 1½% under the prime rate. Under the terms of this Agreement, the Corporation guarantees performance of all obligations to CSO which may be incurred by SRC.

COMMON OFFICERS AND DIRECTORS

Various officers and directors of Superior, CSO, Falconbridge and the Corporation hold positions as officers or directors of two or more of such companies. One of the seven directors of CSO is a director and officer of Superior, two of the ten directors of Superior are also among the six directors of the Corporation, and four directors of Superior (including the one who is also a director of CSO) are also among the 12 directors of Falconbridge. See "Election of Directors".

1984 ANNUAL MEETING

It is anticipated that the 1984 annual meeting of shareholders will be held in May, 1984 at a time and place to be determined by the directors. Shareholders entitled to vote thereat and who wish to present proposals for consideration at the 1984 annual meeting may do so by submitting the proposal to the Corporation at least 90 days before the anniversary date of the annual meeting of shareholders to which this Circular relates.

The contents and sending of this management proxy circular and proxy statement have been approved by the board of directors.

Dated: March 30, 1983

William M. Bone
Corporate Secretary

A copy of the Corporation's annual report to the United States Securities and Exchange Commission on Form 10-K including financial statements and related schedules may be obtained without charge by writing to the Corporate Secretary at the Registered Office of the Corporation, Three Calgary Place, 14th Floor, 355 Fourth Avenue S.W., Calgary, Alberta T2P 0J3.

About McIntyre

McIntyre Mines Limited (the Company) has been engaged in mining since 1911, and in the mining preparation and sale of coal since 1969. The Company's Smoky River coal properties contain multiple seams of high grade, low-volatile coking coal used primarily in steel production. McIntyre's principal coal customers have historically been certain Japanese steel mills. In 1980, McIntyre moved its head office to Calgary, Alberta from Toronto to bring management and the administrative functions closer to the Company's coal operations at Grande Cache, Alberta.

To Our Shareholders



*P. J. Urso
President, Chairman and
Chief Executive Officer*

1982 was an extremely difficult year for McIntyre. On a consolidated basis, the Company reported a loss of \$74.5 million. This loss was comprised of \$42.7 million from coal operations and \$31.8 million from the Company's interest in Falconbridge Limited compared with \$6.2 million and \$1.7 million losses respectively in 1981.

In 1982, the Company sold 1.2 million long tons clean (LTC) of coal, generating revenues of \$97.5 million compared to 1.9 million LTC's for \$140.3 million in 1981. This significant drop in sales resulted from major reductions in crude steel production by steelmakers in Japan and Latin America, the Company's major markets.

In late 1981 and early 1982 while coal markets were relatively strong several major coal producers were successful in obtaining substantial price increases from the Japanese customers. The Company had been hopeful that this trend would assist it in renegotiating its contract with the Japanese customers for an extended term and at higher prices commencing in the 1982 contract year. However, in mid-1982 the impact of the worldwide recession began to be felt in Japan and the Japanese steel makers responded with significant reductions in steel production. As the year progressed, in light of an excess coal supply and falling steel demand, the Japanese reduced their purchases from coal producers in Australia and Canada to approximately 75% of contracted volumes. In Brazil our customers also reduced and deferred a major portion of their contracted tonnages for 1982.

The Company responded to the problem of reduced sales and resulting high inventories with several measures aimed at preserving working capital and liquidity. These measures included a moratorium on all discretionary capital expenditures, a reduction of the workforce by approximately 580 employees and a three and a half month shut-down of the mining operation during the 3rd and 4th quarters of 1982.

In light of the rapidly deteriorating market, the Company urged its Japanese customers to commence negotiations as soon as possible for

a renewal of the Company's two year contract which was due to expire in March 1983. These negotiations began in early September, and in October the Company was able to obtain an agreement calling for deliveries of 1.8 million tons over a two year period commencing October 1, 1982. The price of the first 300,000 tons is \$78.50 and for all remaining tons \$87.50.

During the negotiations, the Japanese customers emphasized their concern regarding the worldwide oversupply of metallurgical coal and stated that due to this oversupply their current plans did not include any purchases from the Company after 1984. We are hopeful that by 1984, this oversupply situation will be corrected, and that further purchases by the Japanese will be possible. However, in light of these uncertainties, every possible effort is being made to secure sufficient additional sales to replace a substantial portion of the Japanese tonnages. Although significant progress has been made in this regard, the ultimate success of these efforts is highly dependent on a general and sustained recovery in world economies.

Falconbridge, in which the Company held a 37.1% equity interest during 1982, also experienced a very difficult year losing \$85.3 million of which the Company's share was \$31.8 million. These losses were caused by the depressed metal markets and the worldwide economic environment which led to lower nickel sales, lower average metal prices and a scaling down and temporary curtailment of certain operations.

In February 1983, Falconbridge successfully completed a public offering in which it sold 2,000,000 units comprised of one common share and one-half warrant at a unit price of \$55.00. The Company did not participate in this offering. As a result of this offering, the Company's equity interest was diluted from 37.1% to 26.5% and could be further reduced to 23.2% if all the warrants are exercised. The

Company's decision not to participate in the offering was based in large part on the belief that the dilution in the Company's equity position in Falconbridge would not be sufficiently significant to justify the commitment of McIntyre's cash flows to servicing the debt which would have been required to participate in the offering.

The major challenges in 1983 will be to weather the economic storm that is plaguing the mining industry throughout the world and to devote every possible resource to securing the markets so vitally needed to ensure the economic success of our coal operations. We believe that with the continued support of our employees, our shareholders and the Government of Alberta, we will be able to meet these challenges.



P. J. Urso
President, Chairman and
Chief Executive Officer

Operations Review

Total production was 1.23 million long tons clean (LTC) processed from 1.80 million long tons raw (LTR) from all of the operating mines. Production was reduced as a result of the economic recession and soft markets for metallurgical coal and was well below the 2.1 million LTC processed in 1981. The reduction was achieved chiefly through a three and a half month shutdown of the operations commencing June 1982. Production restarted in October 1982 with a total workforce of 665, compared with 1250 in January 1982.

No. 9 surface mine production was 0.95 million LTR in 1982, compared with 2.1 million in 1981. Production from the underground operations was 0.85 million in 1982, compared with 0.95 million LTR in 1981. Despite lower production, total property productivity per manshift in 1982 was maintained at a level similar to that achieved in 1981. The mining costs since October 1982 show a significant improvement over those achieved in 1981.

Surface Mining

Surface mining activity is concentrated in the No. 9 Mine area located on the north side of Sheep Creek. The mine has well established maintenance facilities, power, water and water treatment systems. Mining was carried out in three pit areas using up to five 15 cubic yard shovels and twenty-four 150 ton trucks to load and transport blasted overburden to designated dumps. After coal is exposed it is broken and positioned by dozers, then loaded onto 55 and 85 ton trucks and hauled to the Sheep Creek breaker station for transportation via the underground tunnelway conveyor to the coal preparation plant.

At the surface mine 13.2 million bank cubic yards (BCY) of waste were removed at a ratio of 13.9:1 BCY per LTR. In the waste stripping sequence for 1982 the ratio in the early part of the year was planned to be higher than in the latter part. As a result of the three and a half month shutdown the lower ratio areas were not accessed in 1982 and consequently the average ratio remained at 13.9:1, compared with the planned ratio of 11.5:1. During the year a major overhaul program was carried out on the rock haul fleet to increase reliability and reduce

operating costs. Reclamation work continued in 1982 to comply with government regulations.

Underground Mining

Total production from underground mining was 0.85 million LTR. More than half of this total was produced from 9A-4 Mine. During the year mines 2R-11, 2-11 and 5-4 were worked to completion. Development work was carried out in Mine 9G-4, which was put on a care and maintenance basis as a result of the market contraction. During 1982 a high degree of concentration was established in the underground mines with all present and future production planned to come from the No. 9 area. Trials were carried out on improved development/ depillaring layouts and on support systems. Results were encouraging and work will be continuing on both projects.

Coal Preparation

During 1982 the coal preparation system processed 1.8 million LTR extracting 1.23 million LTC. Clean coal quality was consistent and in compliance with contract specifications. Development work carried out during the year has contributed to the achievement of a higher percentage recovery of clean coal.

Mine Planning

As a result of the depressed market conditions and the need to maintain viability at tonnages lower than mine capacity, planning and engineering efforts were intensified. Emphasis was placed on reducing the stripping ratio in the surface mines. Revised plans were developed in which the stripping ratio has been reduced to an average of 7.5:1. This significant improvement will be achieved by reducing the proportion of production mined in the No. 9 Mine West Extension and exploiting other areas on the property with lower ratios. The revised plan provides for at least 10 years production at the lower ratio.

Human Resources

Difficult market conditions brought about a temporary shutdown and lower levels of manpower when the mine resumed production. During the year turnover rates reduced and there has been no difficulty in maintaining the required level of labour force.

Affiliated Company

Falconbridge Limited

Falconbridge Limited (Falconbridge), in which the company held a 37.1% interest, recorded a consolidated loss of \$85.3 million (\$17.12 per share) compared to a consolidated loss of \$9.0 million in 1981. The 1981 loss included a \$5.1 million extraordinary write-off of United Keno Hill Mines Venus Mine Project.

The principal reasons for the increase in the consolidated loss for 1982, compared with 1981, were the depressed metal markets and worldwide economic environment, which resulted in lower nickel sales, decreased average metal prices, and the expensing of costs resulting from the scaling down and temporary curtailment of certain operations.

The integrated nickel operations' loss of \$25.9 million in 1982 compared with earnings of \$31.0 million in 1981. The unfavorable change of \$56.9 million mainly reflected lower average U.S. dollar metal selling prices, production curtailment costs (including employee termination and retiring allowances) and decreased metal sales volumes. The 13-week production shutdown at Sudbury Operations, which had been scheduled to end on September 26, 1982 was extended by 14 weeks to January 3, 1983. The refinery in Norway, which had been shut down for 11 weeks, resumed limited operations on September 27, 1982 in order to meet contractual custom refining obligations.

Falconbridge Dominicana, C. por A.'s (Falcondo) 1982 loss of \$43.3 million compared with a 1981 loss of \$19.7 million. The 1982 loss reflected weak demand and prices for ferronickel, ongoing costs during an eight month suspension of production operations and costs associated with reducing the workforce.

Production by Falcondo was suspended from mid-January to mid-September, 1982. Despite continued weak markets, inventory of ferronickel produced by Falcondo was depleted to a level at which it became necessary to resume production at about 50% of capacity. A severe reduction in the market price of ferronickel in the fourth quarter offset earlier cost cutting efforts.

During 1982 there was major emphasis put on cost savings and reduction of the drain on Falconbridge's cash resources. The Sudbury production operations were shut down for 27 weeks and the work force is being reduced from 4,034 to less than 2,650. The refinery in Norway was shut down for 11 weeks and the work force reduced. Falcondo, which suspended production operations from mid-January to mid-September, resumed limited production operations after certain steps, including a substantial reduction in the workforce, had been taken to reduce costs. In addition, there were significant reductions in capital expenditures, administrative costs, research and development and exploration expenditures.

At December 31, 1982 the Company's equity interest in Falconbridge was 37.1%. In February 1983 Falconbridge issued an additional 2,000,000 common shares together with warrants to purchase an additional 1,000,000 shares. McIntyre did not purchase any of the additional shares issued. As a result McIntyre's equity interest in February 1983 was reduced to 26.5% with a potential dilution to 23.2% if all the warrants are exercised.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

As a result of significant operating losses working capital decreased in 1982 by \$27.1 million to \$5.0 million from \$32.1 million at December 31, 1981. During 1982, operations required funding of \$20.4 million and capital expenditures accounted for the balance of the decrease in working capital. Such operations and capital expenditures were financed by the incurrence of short term debt which increased by \$28.1 million over 1981. This debt included \$9.9 million in debt to a bank and an \$18.2 million inventory purchase arrangement with an affiliate.

Capital expenditures in 1982 were \$7.6 million, compared to \$19.9 million and \$11.5 million in 1981 and 1980, respectively. The expenditures were made to replace equipment for surface and underground mining, and to develop new underground mines. Capital expenditures during 1982 were reduced significantly from prior years as a result of a freeze on capital spending that was implemented in June, 1982 to preserve liquidity. The Company will be in a position to minimize capital expenditures for the next several years in view of the significant expenditures in 1980 and 1981, assuming an absence of major production increases.

In the past the Company has received significant cash infusions in the form of dividends from Falconbridge. However, in view of the depressed state of the metals markets the Company does not anticipate that this source of cash flow will be of material benefit in the near future.

Except for housing mortgages and capital leases, which aggregated \$7.9 million at December 31, 1982, McIntyre has no long-term debt and had available a \$20 million line of credit, increased to \$30 million in January, 1983, secured by its coal assets. The Company believes that this credit facility is ample for current and anticipated levels of activity.

In addition the Company's equity investment in Falconbridge is unencumbered and could provide substantial additional borrowing capacity with which to pursue other business activities.

Results of Operations

The Company experienced an operating loss of \$42.7 million in 1982, compared to operating losses of \$6.1 million in 1981 and \$3.0 million in 1980. The primary reason for the 1982 operating loss was a \$42.8 million decline in revenues due to a rapid deterioration of the metallurgical coal market which was attributable in large part to the impact of the world-wide economic recession on the steel manufacturing industry. As a result, several customers did not take contracted volumes in their full amount and spot market sales failed to materialize at anticipated levels. The loss from operations included the write-off of \$10.2 million in deferred mine development expenditures relating to original start-up costs and exploration on non-producing areas of the Smoky River property.

A major factor in future revenues and earnings will be the Company's ability to continue its relationship with the group of Japanese

steelmaking concerns which has accounted for 76%, 70% and 66% of McIntyre's revenues during the fiscal years ended December 31, 1982, 1981 and 1980, respectively. This group has indicated to McIntyre that it has no present intention of renewing its purchases after the expiration of the present agreement in late 1984. If McIntyre is unable to secure the extension of this arrangement at that time or to obtain suitable alternative markets, its operations will be materially and adversely affected.

The Company's corporate expenses increased by \$5.1 million over 1981 due primarily to the absence of offsetting interest income since excess cash was consumed in operations and was unavailable for investment as in the prior year.

The Company has taken several measures to address the impact of the currently difficult operating environment, including the suspension of most capital expenditures, the reduction of the personnel force by approximately 580 persons and the cessation of operations at Smoky River for a period of 15 weeks during the third and fourth quarters of 1982. As a result of these measures, coal production for 1982 declined to 1,226,000 tons as compared to 2,065,000 and 1,470,000 tons for 1981 and 1980, respectively. In addition, during 1982 the Company completed a major redesign of its open pit operations and was successful in developing new plans calling for strip ratios of less than 8 to 1 for the next 10 years, a substantial improvement over prior plans. The Company intends to continue to restrict output as necessary to avoid excessive accumulation of inventory and to continue to effect other operating economies as appropriate.

As a result of reductions in cost and efficiencies achieved in 1982, including the completion of the redesign of certain pits last year, management believes that operating costs have been reduced to a level which will enable the

Company to minimize operating losses or possibly achieve modest operating income in 1983 even in the absence of a recovery in the market for metallurgical coal. Thereafter, the long-term expectation for results of operations will be dependent upon the renewal of major contracts as discussed above as well as a general and sustained recovery in demand for metallurgical coal.

In addition to the operating losses described above, the Company recognized an additional loss of \$31.8 million in 1982 attributable to its equity in the losses of Falconbridge, which resulted in an aggregate net loss for the year of \$74.5 million as compared to a net loss of \$9.7 million in 1981 and net income of \$35.7 million in 1980. The equity in Falconbridge has historically impacted the Company's results of operations in a significant way and it is expected that it will continue to do so. As long as Falconbridge continues to experience losses due to the currently depressed state of the metals market, McIntyre's earnings will continue to be adversely affected. As a result of a public offering of common stock by Falconbridge in early 1983, in which McIntyre did not subscribe, McIntyre's equity interest in Falconbridge was reduced from 37.1% to 26.5%. McIntyre determined not to make this investment required to maintain its proportionate equity in Falconbridge as it did not believe that the incurrence of substantial indebtedness for this purpose represented an optimal utilization of its resources.

Consolidated Balance Sheets

(in thousands of Canadian dollars)

ASSETS

	December 31		
	1982	1981	1980
Current:			
Cash and short-term investments	\$ 14,939	\$ 13,992	\$ 32,318
Accounts receivable	2,095	3,909	5,911
Coal inventory (Note 15)	16,431	18,232	6,978
Mine supplies	11,956	10,485	8,089
	45,421	46,618	53,296
Investments (Note 2):			
Falconbridge Limited	135,047	166,694	172,817
Neptune Bulk Terminals (Canada) Limited	885	885	885
Madeleine Mines Ltd.	—	146	630
	135,932	167,725	174,332
Property, plant and equipment (Note 3)	48,008	52,195	46,639
Deferred mine development (Note 4)	32,120	42,824	42,238
Other (Note 5)	12,978	11,870	8,379
	\$274,459	\$321,232	\$324,884

The accompanying notes to consolidated financial

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31		
	1982	1981	1980
Current liabilities:			
Bank indebtedness (Note 6)	\$ 9,864	\$ —	\$ —
Accounts payable and accrued liabilities	12,106	14,252	11,313
Current portion of long-term debt	288	224	719
Due to affiliate (Note 15)	18,160	—	—
	<u>40,418</u>	<u>14,476</u>	<u>12,032</u>
Long-term debt (Note 6)	7,589	6,518	4,594
Provision for reclamation	8,289	7,575	5,991
Commitments and contingencies (Note 8)			
Shareholders' equity:			
Share capital (Notes 9 and 10)	87,870	87,870	87,741
Retained earnings	134,070	208,570	218,303
	<u>221,940</u>	<u>296,440</u>	<u>306,044</u>
Less: Shares held by affiliate, at cost	3,777	3,777	3,777
	<u>218,163</u>	<u>292,663</u>	<u>302,267</u>
	<u>\$274,459</u>	<u>\$321,232</u>	<u>\$324,884</u>

APPROVED BY THE BOARD



Director



Director

Consolidated Statements of Loss (Income) and Retained Earnings

(in thousands of Canadian dollars, except per share data)

	Year Ended December 31		
	1982	1981	1980
Revenue (Notes 7 & 18)	<u>\$ 97,531</u>	<u>\$140,294</u>	<u>\$115,213</u>
Cost of Sales:			
Operating costs	111,874	130,904	101,599
Depreciation	10,065	8,046	9,309
Amortization	2,012	5,560	4,032
Reclamation	714	1,649	3,130
Write-off of deferred development (Note 4)	10,195	—	—
	<u>134,860</u>	<u>146,159</u>	<u>118,070</u>
Gross Loss	<u>37,329</u>	<u>5,865</u>	<u>2,857</u>
Corporate Expenses (Income):			
Administration	4,502	5,023	5,085
Exploration	518	521	1,353
Interest	309	(5,231)	(3,679)
Foreign exchange	62	(22)	—
Gain on insurance settlement	—	—	(2,124)
	<u>5,391</u>	<u>291</u>	<u>635</u>
Loss from operations before income taxes	<u>42,720</u>	<u>6,156</u>	<u>3,492</u>
Income taxes	—	—	(500)
Loss from operations	<u>42,720</u>	<u>6,156</u>	<u>2,992</u>
Equity in losses (earnings) of affiliates	<u>31,780</u>	<u>1,676</u>	<u>(24,662)</u>
Loss (income) before extraordinary items	<u>74,500</u>	<u>7,832</u>	<u>(21,670)</u>
Extraordinary items (Note 11)	—	1,901	(13,995)
Net loss (income)	<u>\$ 74,500</u>	<u>\$ 9,733</u>	<u>\$ (35,665)</u>
Per share (Note 12)			
Loss (income) before extraordinary items	<u>\$ 20.67</u>	<u>\$ 2.17</u>	<u>\$ (6.02)</u>
Extraordinary items	—	.53	(3.88)
	<u>\$ 20.67</u>	<u>\$ 2.70</u>	<u>\$ (9.90)</u>
Retained earnings — beginning of year	<u>\$208,570</u>	<u>\$218,303</u>	<u>\$182,638</u>
Net loss (income)	<u>74,500</u>	<u>9,733</u>	<u>(35,665)</u>
Retained earnings — end of year	<u>\$134,070</u>	<u>\$208,570</u>	<u>\$218,303</u>

The accompanying notes to consolidated financial statements form an integral part of these statements.

Consolidated Statements of Changes in Financial Position

(in thousands of Canadian dollars)

	Year Ended December 31		
	1982	1981	1980
Funds provided:			
Operations (Note 17)	\$ —	\$ 8,957	\$ 11,296
Dividends from affiliates	171	3,030	7,325
Decrease in security deposits	(24)	788	—
Proceeds from asset disposals	731	248	—
Issuance of common shares	—	129	333
Proceeds from insurance settlement	—	—	2,805
Settlement of long-term account receivable	—	—	2,000
Other	—	—	170
	<u>878</u>	<u>13,152</u>	<u>23,929</u>
Funds applied:			
Operations (Note 17)	20,421	—	—
Plant and equipment	6,095	13,708	9,462
Deferred mine development	1,502	6,146	2,008
Employee housing (Note 5)	(126)	2,231	771
Other	(14)	189	577
Reduction of long-term debt	139	—	118
Investment in Neptune Bulk Terminals	—	—	885
	<u>28,017</u>	<u>22,274</u>	<u>13,821</u>
Increase (decrease) in working capital	(27,139)	(9,122)	10,108
Working capital, beginning of year	32,142	41,264	31,156
Working capital, end of year	<u>\$ 5,003</u>	<u>\$ 32,142</u>	<u>\$ 41,264</u>
Changes in components of working capital:			
Increase (decrease) in current assets			
Cash and short-term investments	\$ 947	\$ (18,326)	\$ 20,119
Accounts receivable	(1,814)	(2,002)	1,869
Coal inventory	(1,801)	11,254	(10,709)
Mine supplies	1,471	2,396	734
	<u>(1,197)</u>	<u>(6,678)</u>	<u>12,013</u>
Increase (decrease) in current liabilities:			
Bank indebtedness	9,864	—	—
Accounts payable and accrued liabilities	(2,146)	2,939	1,910
Current portion of long-term debt	64	(495)	(5)
Due to affiliate	18,160	—	—
	<u>25,942</u>	<u>2,444</u>	<u>1,905</u>
Increase (decrease) in working capital	<u>\$ (27,139)</u>	<u>\$ (9,122)</u>	<u>\$ 10,108</u>

The accompanying notes to consolidated financial statements form an integral part of these statements.

Notes to Consolidated Financial Statements

1. Accounting Policies:

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada consistently applied and therefore conform in all material respects with the standards of the International Accounting Standards Committee. In these statements, references to the Company mean McIntyre Mines Limited.

All dollar amounts are stated in thousands of Canadian dollars except per share data and where noted.

(a) Basis of consolidation —

The consolidated financial statements include the accounts of McIntyre Mines Limited and all companies which are more than 50% owned. All companies which are less than 50% owned but over which the Company exercises significant influence are accounted for on the equity method. All significant intercompany accounts and transactions have been eliminated on consolidation.

(b) Short-term investments —

Short-term investments are recorded at cost which approximates market value.

(c) Inventories —

Coal inventory is recorded at the lower of cost and net realizable value, cost being determined on the basis of current production cost including depreciation and amortization.

Mine supplies are recorded at the lower of cost and net realizable value.

(d) Property, plant and equipment —

Property, plant and equipment are recorded at cost and depreciated on the straight-line basis over their estimated productive lives, which range from three to twenty years. Maintenance and repair expenditures are expensed as incurred.

Development and preproduction expenditures relating to each mine are capitalized until the mine is brought into production, at which time the costs are amortized on the unit of production basis. Costs which are not considered economically recoverable through mining operations or through sale of reserves are written off.

(e) Reclamation —

The estimated costs of reclaiming acreage which has been disturbed are provided primarily on a unit of production basis.

(f) Exploration —

Exploration costs which relate to new properties where an underlying economic value has not been established or which are incurred to better define known coal limits and structure are expensed as incurred.

Exploration costs which relate to new properties which have an underlying economic value, and which have proven mineral deposits are capitalized until the mine reaches an economic production level.

(g) Foreign exchange —

Assets and liabilities to be settled in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rates prevailing during the year.

For financial statements of consolidated foreign subsidiaries, current assets and liabilities are translated at the rate of exchange prevailing at the balance sheet date. Non-current assets are translated using the historical blend of exchange rates in effect at the time of acquisition. Revenues and expenses are translated at the average rates prevailing during the year.

2. Investments:

(i) Changes in the investments in affiliates are as follows:

	Falconbridge			Madeleine		
	1982	1981	1980	1982	1981	1980
Investment, beginning of year	\$166,694	\$172,817	\$141,181	\$ 146	\$ 630	\$ 934
Equity in earnings (losses):						
Before extraordinary items	(31,647)	(1,449)	24,110	(133)	(227)	552
Extraordinary items	—	(1,901)	13,995	—	—	—
Dividends	—	(2,773)	(6,469)	(13)	(257)	(856)
Investment, end of year	<u>\$135,047</u>	<u>\$166,694</u>	<u>\$172,817</u>	<u>\$ —</u>	<u>\$ 146</u>	<u>\$ 630</u>

Falconbridge

The investment in Falconbridge Limited (37.1% equity interest) is accounted for on the equity method which reflects the investment at cost less prior year's write-down plus its interest in undistributed earnings. In February, 1983, Falconbridge issued an additional 2,000,000 common shares with warrants to purchase an additional 1,000,000 common shares. The Company did not purchase any of the shares or warrants issued. As a result, the Company's equity interest in Falconbridge in February, 1983, was reduced to 26.5%, with potential dilution to 23.2% if all warrants are exercised.

At December 31, 1982, the carrying value of the Company's investment in Falconbridge (1,848,414 shares) was approximately \$45,399 in excess of its market value based upon the quoted market price on The Toronto Stock Exchange. In the opinion of McIntyre's management, the Company's equity in the realizable value of the underlying net assets of Falconbridge is in excess of its investment.

Neptune

A 20% equity interest in Neptune Bulk Terminals (Canada) Limited was purchased in 1980 at a cost of \$885. Since Neptune operates on a Cost of Service basis, all costs are passed through to McIntyre and the other shareholders, based on contracted and actual capacity used, and charged to earnings as incurred.

Madeleine

In 1982, Madeleine Mines Ltd. (36.4% equity interest) ceased operations and is in the process of disposing of all plant and equipment. During the year, dividends were received from Madeleine which, using the equity method, reduced the Company's investment to nil. Income (loss) attributable to common shares was \$(1,534) in 1982, \$(704) in 1981 and \$1,864 in 1980. At December 31, 1982 the net assets of Madeleine were \$1,996.

(ii) Summarized financial information for Falconbridge and Neptune is presented below:

	Falconbridge			Neptune	
	1982	1981	1980	1982	1981
Current assets	\$ 438,461	\$ 601,160	\$ 548,325	\$ 2,552	\$ 5,005
Property, plant and equipment, net	540,483	550,011	506,131	22,508	18,424
Other assets	98,585	101,867	104,638	95	1,500
	<u>\$1,077,529</u>	<u>\$1,253,038</u>	<u>\$1,159,094</u>	<u>\$ 25,155</u>	<u>\$ 24,929</u>
Current liabilities	\$ 96,910	\$ 127,990	\$ 186,206	\$ 4,015	\$ 5,213
Long-term liabilities	467,520	465,386	285,801	17,140	15,716
Deferred income taxes	48,554	87,375	85,284	—	—
Minority interest	60,151	82,639	95,662	—	—
Shareholders' equity	404,394	489,648	506,141	4,000	4,000
	<u>\$1,077,529</u>	<u>\$1,253,038</u>	<u>\$1,159,094</u>	<u>\$ 25,155</u>	<u>\$ 24,929</u>
Income (loss) attributable to common shares:					
Before extraordinary items	\$ 85,254	\$ (3,902)	\$ 64,947	\$ —	\$ —
Extraordinary items	\$ —	\$ (5,122)	\$ 37,700	\$ —	\$ —
Dividends paid on common shares	\$ —	\$ 7,469	\$ 17,427	\$ —	\$ —

Financial information for Madeleine is not presented as the company ceased mining operations in 1982 and is now in the process of liquidating its plant and equipment.

3. Property, plant and equipment:

Property, plant and equipment are as follows:

	1982	1981	1980
Surface mine equipment	\$ 44,267	\$ 43,418	\$40,986
Underground mine equipment	23,595	22,923	17,979
Coal preparation plant	21,951	21,844	21,327
Other equipment	26,138	23,081	18,756
	<u>115,951</u>	<u>111,266</u>	<u>99,048</u>
Less: Accumulated depreciation	67,943	59,071	52,409
	<u>\$ 48,008</u>	<u>\$ 52,195</u>	<u>\$46,639</u>

4. Deferred mine development:

Deferred mine development, net of accumulated amortization, is as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Producing properties, Smoky River:			
Surface mine	\$16,886	\$18,270	\$20,607
Underground mines	5,883	5,444	3,933
Start-up costs (iii)	—	8,773	9,140
Non-producing properties:			
Copton (i)	7,121	6,989	6,923
Monkman (ii)	1,408	857	—
Smoky River (iii)	822	2,491	1,635
	<u>\$32,120</u>	<u>\$42,824</u>	<u>\$42,238</u>

- (i) Copton Excol Limited, an 82.9% owned subsidiary, has properties situated adjacent to the Smoky River property. Exploration of these properties indicates that substantial quantities of proven coal reserves exist. Studies are continuing on the feasibility of developing this property as a producer of coking or thermal coal. Profits commensurate with the risks of operating in this location must be indicated before further development is undertaken to bring the mine into production.

An agreement with Meadowlark Farms Inc., a subsidiary of Amax, Inc. was entered into in 1974 to explore and evaluate Copton's coal properties. In 1976, disputes arose and were the subject of lawsuits. In April, 1982, the litigation referred to in the 1981 Annual Report was resolved by the formation of a new joint venture between Copton Excol Limited and Meadowlark Farms Inc.

- (ii) Exploration of the Monkman Property has outlined significant proven coal reserves. Mining feasibility studies, environmental submissions and market research are now in an advanced stage. Studies are continuing in order to establish that earnings will be commensurate with the risks of further investment in this property.

- (iii) During 1982, due to the softening of the world coal markets, the Company reviewed and revised the mining plans. As a result, \$10,195 in deferred mine development costs were not considered to be economically recoverable and were written off.

5. Other assets:

Other assets are as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Employee housing loans	\$ 6,161	\$ 8,715	\$ 2,224
Houses for sale to employees, at the lower of cost and net realizable value	6,659	3,021	5,233
Security deposits	158	134	922
	<u>\$12,978</u>	<u>\$11,870</u>	<u>\$ 8,379</u>

To attract and retain employees, mortgage assistance and loans have been provided to enable employees to purchase local housing. In addition, certain housing mortgages, amounting to \$1,202 at December 31, 1982 have been guaranteed.

The net change in employee housing was as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Houses for sale to employees			
Net funds (derived from) applied to sale or purchase of houses (to) from employees	\$ 3,638	\$ (2,212)	\$ 986
Mortgages on houses for sale to employees			
Increase in mortgages payable by the Company ...	(1,210)	(2,048)	(530)
Employee housing loans			
Mortgages (repaid by) advanced to employees	(2,554)	6,491	315
Change in employee housing	<u>\$ (126)</u>	<u>\$ 2,231</u>	<u>\$ 771</u>

The realization of the investment in employee housing is dependent on the continuation of the mining activities at Smoky River.

6. Debt:

(i) Borrowing arrangements:

During 1982, the Company had a line of credit totalling \$20,000 with a Canadian bank. At December 31, 1982, \$9,864 was outstanding in Canadian Banker's Acceptances. The line of credit can be utilized at the option of the Company by way of direct Canadian or U.S. dollar equivalent loans or by way of Banker's Acceptances. The interest rate for Canadian loans is the Bank's prime lending rate. The interest rate on U.S. loans is the London Interbank Offered Rate (LIBOR) plus ½% with the stamping fee for Acceptances set at ½%. There are no commitment fees, and a compensating balance is not required under the line of credit.

(ii) Long-term debt is as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Mortgages on houses for sale to employees	\$6,608	\$5,334	\$3,286
Capital leases	1,269	1,408	2,027
	7,877	6,742	5,313
Less: Current portion	288	224	719
	<u>\$7,589</u>	<u>\$6,518</u>	<u>\$4,594</u>

Long-term debt is repayable as follows:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Mortgages	\$112	\$106	\$118	\$135	\$155
Capital leases	176	148	130	143	152

Interest rates vary from 8.0% to 19.5%.

7. Mining operations:

- (i) The Company's primary activity is to mine, process and sell high grade metallurgical coking coal. This activity, formerly carried on by the Company's Mining Division, was transferred to a wholly owned subsidiary, Smoky River Coal Limited, incorporated in 1982. A condensed balance sheet for Smoky River Coal Limited as of December 31, 1982 is as follows:

Current assets	\$ 22,313
Property, plant and equipment	47,481
Deferred mine development	23,591
Housing assets	12,181
Total Assets	\$105,566
Current liabilities	\$ 17,868
Due to parent	14,000
Long-term debt	7,589
Provision for reclamation	8,289
Shareholders' equity	57,820
Total Liabilities and Equity	\$105,566

The following summarizes the results of coal mining operations for the current and prior two years:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Clean coal produced, in thousands of long tons	1,226	2,065	1,470
Clean coal sold, in thousands of long tons	1,237	1,899	1,684
Revenue	\$ 97,531	\$140,294	\$115,213
Cost of Sales	134,860	146,159	118,070
Gross Loss	\$ 37,329	\$ 5,865	\$ 2,857

Segment information:

All sales of coal are made to unaffiliated customers, the major ones being a group of eight Japanese steel mills and five Japanese gas/coke companies. The following is an analysis of sales (in thousands of long tons) and revenue:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Major Customers			
Sales	945	1,330	1,116
Revenue	\$74,500	\$ 96,707	\$ 76,482
Others			
Sales	292	569	568
Revenue	\$23,031	\$ 43,587	\$ 38,731
Total			
Sales	1,237	1,899	1,684
Revenue	\$97,531	\$140,294	\$115,213

- (ii) At the present time the Company has contracted for the annual delivery of coal as follows (in thousands of long tons):

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Japan	1,200	450	—	—	—
Other Pacific Rim	258	280	280	255	65
South America	450	450	450	450	450
	<u>1,908</u>	<u>1,180</u>	<u>730</u>	<u>705</u>	<u>515</u>

In 1982, the Company successfully negotiated a contract with a consortium of Japanese customers calling for the delivery of 1.8 million tons over a two-year period commencing October 1, 1982. Under the contract, the Company will deliver the first 300,000 tons at a price of \$78.50 per ton, and remaining tons at \$87.50.

The 1983 prices on the remaining contracts will be negotiated during the year. Due to a softening in worldwide demand for metallurgical coal and the resulting oversupply situation, there has been a general downward trend in coal prices. This downward trend could result in somewhat lower coal prices during 1983 in markets other than Japan when compared to 1982. Furthermore, it is possible that due to reduced steel production worldwide, the currently contracted volume of sales may not be achieved.

8. Commitments and contingencies:

- (i) The Company has a long-term operating lease agreement for the supply of unit-train rail cars for the transportation of coal. The minimum annual rental charges for the next two years will be \$1,144; the overall lease agreement, which expires in 1990, includes several sub-contracts which will be re-negotiated as they expire. This is the only significant operating lease agreement of the Company.
- (ii) In 1969 the Company contracted to supply coal to Canadian Utilities Limited to provide its requirements for fuel of contract specification at its thermal power generating plant at Smoky River, Alberta, for a period of fifteen years commencing December 1972 at a price of approximately \$0.32 per long ton. It was initially anticipated that these annual requirements would be in the range of 600,000 short tons per year. The contract is renewable at the option of the purchaser at a nominal price for a further fifteen years.

Alberta Power Limited, the assignee of Canadian Utilities, in 1973 commenced an action against the Company in the Supreme Court of Alberta claiming damages in the amount of \$804 for costs allegedly incurred by it in connection with the supply and use of coal supplied by the Company during 1973, and requesting certain declaratory and injunctive relief. The Company is defending the action. In the opinion of the Company's counsel, the plaintiff will not be successful in obtaining judgment in the amount of damages presently claimed or in obtaining an injunction. No provision therefor has been made in the accounts.

The plaintiff's claim as presently pleaded covers only the year 1973. Claims in respect of subsequent years may be made but the Company is not currently in a position to determine the amount of the damages, if any, which might be sustained with respect to those years.

The Company maintains that it is legally bound under the contract to supply only by-product coal from its metallurgical coal mining and processing operations. It believes, on the basis of its by-product coal production since its metallurgical coal mining operation at Smoky River commenced in 1970, that there will not be sufficient amounts of specification by-product coal available to fulfill the requirements of Alberta Power. The Company is presently delivering

by-product coal to Alberta Power on a month to month basis, at cost. The Company understands that Alberta Power has also been purchasing and utilizing and continues to purchase and utilize additional fuel. The parties are currently engaged in discussions with a view to a possible settlement which may contemplate, among other things, long-term undertakings by the Company regarding delivery of minimum quantities of by-product coal from its Smoky River operation as well as other financial commitments.

- (iii) On December 5, 1980, Neptune Bulk Terminals Ltd. filed a Statement of Claim in the Supreme Court of British Columbia, alleging that it had suffered damages by reason of breach of contract, negligent misrepresentation and negligence on the part of the Company in connection with the sale of a stacker-reclaimer by the Company.

There are numerous other defendants in this action.

Examinations for Discovery have commenced but are not yet completed. In its Statement of Claim, the plaintiff has not stated what quantum of damages it is seeking against the Company. In the opinion of counsel, it is too early to evaluate fully this claim.

In 1983 by Order of the Supreme Court of British Columbia, the action against the Company was dismissed and no appeal of this order has been commenced.

- (iv) A guarantee, secured by a letter of credit, for the performance of reclamation work has been provided to the Alberta Government.

9. Share capital:

The authorized capital consists of an unlimited number of preference and common shares without nominal or par value. The Company had 3,669,573, 3,669,573 and 3,666,073 common shares outstanding as of December 31, 1982, 1981 and 1980 respectively.

There are no preference shares outstanding.

10. Share option plans:

In 1958, the Executive and Key Employee Stock Option Plan was established. This plan expired in 1982. In April 1980, the shareholders approved the 1980 Executive and Key Employee Share Option Plan which permits the Board of Directors to grant options for terms up to five years to purchase shares at a price of not less than 90% of the average market value of such shares on the preceding trading date. Options on up to 150,000 shares may be granted under this plan which also provides for stock appreciation rights in tandem with the options.

	Number of Shares	Option Price Per Share
Options outstanding December 31, 1979	18,100	\$25.18 to \$52.73
Granted	10,500	56.00
Exercised	(10,100)	25.18 to 52.73
Expired	(1,000)	56.00
Options outstanding December 31, 1980	17,500	25.18 to 56.00
Granted	17,000	56.00 to 62.00
Exercised	(3,500)	25.18 to 52.73
Surrendered or expired	(5,000)	56.00
Options outstanding December 31, 1981	26,000	44.06 to 62.00
Granted	28,500	29.25
Surrendered or expired	(10,500)	29.25 to 56.00
Options outstanding December 31, 1982	<u>44,000</u>	\$29.25 to \$62.00

Options outstanding at December 31, 1982 relate only to the five-year options on 44,000 common shares under the 1980 plan. The five-year options become exercisable after one year from the date of grant in cumulative increments of 25% per year.

Upon the exercise of options, the full amount received is credited to the Share Capital. No amounts are charged to earnings except upon the exercise of stock appreciation rights under the 1980 plan.

11. Extraordinary items:

Extraordinary items consist of the following:

	1982	1981	1980
Equity in Falconbridge's write-off of its investment in United Keno Hill Mines Limited's Venus Project	\$ —	\$ 1,901	\$ —
Equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	—	—	(13,995)
	<u>\$ —</u>	<u>\$ 1,901</u>	<u>\$(13,995)</u>

12. Earnings per share:

For calculation of earnings per share, the number of total shares outstanding has been reduced by the Company's proportionate investment in its shares held by an affiliate as follows:

Years	Weighted average total shares outstanding	Deduct proportionate investment in shares held by an affiliate	Number of shares used in calculation of earnings per share
1982	3,669,573	65,269	3,604,304
1981	3,668,889	65,269	3,603,620
1980	3,665,306	65,269	3,600,037

Exercise of the share options outstanding would not materially affect the earnings per share.

13. Pension plans:

The Company has two pension plans, one for salaried and the other for hourly employees. The salaried plan is contributory and provides for an annual pension equivalent to the number of years of service times 1½% of the average annual earnings during the best three years of the final ten years of employment. The hourly plan is non-contributory and provides for an annual pension equivalent to 1¼% of the total earnings while a participant of the plan.

The most recent actuarial valuations for the plans were January 1, 1982. Due to the actuarial surplus in each plan, the Company did not make contributions in 1982, 1981 or 1980.

14. Reconciliation of loss (income) prepared in accordance with generally accepted accounting principles in Canada (Canadian GAAP) to conform with generally accepted accounting principles in the United States (U.S. GAAP):

	Year ended December 31		
	1982	1981	1980
Loss from operations, as reported	<u>\$ 42,720</u>	<u>\$ 6,156</u>	<u>\$ 2,992</u>
Equity in losses (earnings) of affiliates before extraordinary items as reported	<u>\$ 31,780</u>	<u>\$ 1,676</u>	<u>\$ (24,662)</u>
Adjustments to conform with U.S. GAAP			
Decrease (Increase) in Company's equity in Falconbridge to reflect the adjustments to:			
1. Record long-term debt at exchange rate at the end of year (i)	3,678	(973)	427
2. Record losses (gains) on translation of foreign subsidiaries' accounts which were deferred for consolidation purposes (i)	(524)	1,049	(587)
3. Record capitalization and amortization of interest costs (ii)	(2,556)	(2,175)	(1,234)
Equity in losses (earnings) of affiliates, as adjusted ...	<u>\$ 32,378</u>	<u>\$ (423)</u>	<u>\$ (26,056)</u>
Loss (income) from continuing operations in accordance with U.S. GAAP	<u>\$ 75,098</u>	<u>\$ 5,733</u>	<u>\$ (23,064)</u>
Company's equity in write-off of Venus project (iii)	—	1,901	—
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge (iii)	—	—	(13,995)
Loss (income) in accordance with U.S. GAAP	<u>\$ 75,098</u>	<u>\$ 7,634</u>	<u>\$ (37,059)</u>
Loss (earnings) per share in accordance with U.S. GAAP			
Continuing operations	<u>\$ 20.84</u>	<u>\$ 1.59</u>	<u>\$ (6.41)</u>
Company's equity in write-off of Venus project	—	.53	—
Company's equity in gain on disposal of shares of Canadian Superior Oil Ltd. by Falconbridge	—	—	(3.88)
	<u>\$ 20.84</u>	<u>\$ 2.12</u>	<u>\$ (10.29)</u>

(i) Under Canadian GAAP Falconbridge translates long-term debt into Canadian dollars at rates of exchange prevailing when the debts were incurred and defers net unrealized gains on translation of foreign subsidiaries' financial statements for consolidation purposes. U.S. GAAP require recognition of all gains or losses resulting from translation of foreign currencies at year-end exchange rates.

(ii) Consistent with the Canadian mining industry's policy of capitalizing all costs incurred during the preproduction stage of a project, Falconbridge capitalizes interest costs incurred prior to the commencement of commercial production for projects which are specifically financed by debt capital. Interest costs incurred after the commencement of commercial production are expensed.

U.S. GAAP require the capitalization of interest costs as part of the historical cost of acquiring certain assets whether or not the assets are specifically financed by debt. Capitalized interest costs are amortized on the same basis as the related assets.

(iii) See Note 11.

15. Related party transactions:

The Superior Oil Company owns 26.6% and Canadian Superior Oil Ltd. (CSO) (a wholly owned subsidiary of The Superior Oil Company) owns 26.4% of the Company. The following transactions occurred between the Company and other members within the group:

- (i) Pursuant to an agreement with Canadian Superior Exploration Limited (Canadian Superior), effective January 1, 1979, Canadian Superior has earned interests, up to a maximum of 50%, in certain of the Company's exploration properties by matching previous expenditures by the Company.
- (ii) The Company and CSO are participants in the Monkman Pass Coal Joint Venture.
- (iii) In December 1982, the Company entered into an agreement with CSO whereby CSO purchases all production at Smoky River, incurs all transportation costs, and resells the product to the Company at Neptune Terminals. Interest is charged on the amounts advanced by CSO at prime less 1½%. Under GAAP, since this transaction is with a related party and no sale has been made to third parties, at December 31, 1982, the coal sold to CSO is included in coal inventory and the amount received from CSO is included in due to affiliate in the accompanying financial statements.

16. Income taxes:

At December 31, 1982, \$20 million in tax loss carryforwards are available. The right to use these expires in 1987.

In addition, at December 31, 1982 the Company and its subsidiaries had approximately \$104.7 million of aggregate unused capital cost allowance and exploration and development deductions available to offset future Canadian taxable income. These deductions are available to reduce the taxable income of the entity which generated the deduction.

Income taxes have not been provided on the undistributed earnings of affiliates since dividends received are not subject to tax. The Company has no material foreign tax liability.

17. Working capital:

Working capital was derived from (applied to) operations as follows:

	<u>1982</u>	<u>1981</u>	<u>1980</u>
Income (loss) before extraordinary items	\$ (74,500)	\$ (7,832)	\$21,670
Items not affecting working capital			
Depreciation	10,065	8,046	9,309
Amortization	2,012	5,560	4,032
Write-off of deferred development	10,195	—	—
Equity in losses (earnings) of affiliates	31,780	1,676	(24,662)
Reclamation	714	1,649	1,004
Gain on disposal of assets	(516)	(142)	—
Dividends from affiliates	(171)	—	—
Deferred taxes	—	—	(500)
Neptune loss	—	—	443
Total from operations (to operations)	<u>\$ (20,421)</u>	<u>\$ 8,957</u>	<u>\$11,296</u>

18. Waiver of coal royalties:

Coal operations are governed by the Ministry of Energy and Natural Resources of Alberta. A waiver has been received in respect of the fixed minimum rate of 5% of minesite revenue until September 1984, and instead the company is subject to coal royalties based on a formula. For 1982, 1981 and 1980, calculations based on the formula resulted in no royalty expense.

19. Falconbridge Dominicana, C. por A.:

In January 1982, Falconbridge Dominicana, C. por A. (Falcondo), a 65.7% owned subsidiary of Falconbridge, temporarily shut down its ferronickel production operations in the Dominican Republic because of the uncertain demand for ferronickel. Falcondo resumed limited production operations in September 1982 after certain steps, including a substantial reduction in workforce, had been taken to reduce costs. Under current market conditions Falcondo will be dependent on the continued financial support of its sponsors. Although it is not possible to determine when conditions will improve sufficiently for the achievement of a self-sustaining operation, management of Falconbridge is of the opinion that its investment in Falcondo will be recovered over the long term. Based upon such opinion, which the Company considers reasonable, the Company has decided not to make any provision in the Company's accounts relating to Falcondo. The Company's proportionate share of the net aggregate carrying value of Falcondo was approximately \$34.5 million on December 31, 1982.

Auditors' Report

To the Shareholders of McINTYRE MINES LIMITED:

We have examined the consolidated balance sheets of McIntyre Mines Limited (a Canada corporation) as of December 31, 1982, 1981 and 1980 and the related consolidated statements of loss (income) and retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances

In our opinion, these consolidated financial statements present fairly the financial position of McIntyre Mines Limited as of December 31, 1982, 1981 and 1980 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
February 1, 1983

ARTHUR ANDERSEN & CO.
Chartered Accountants

Comment by Auditors on Differences in Canada-United States Reporting Standards

In the United States, reporting standards for auditors require the expression of an opinion qualified as being subject to the outcome of significant uncertainties affecting the financial statements such as the uncertainty relating to Falconbridge Dominicana, C. por A. (a subsidiary of Falconbridge Limited), referred to in Note 19 to the accompanying financial statements.

The opinion in our report to the shareholders, dated February 1, 1983, is expressed in accordance with Canadian standards and is not qualified with respect to, and provides no reference to, this uncertainty since such an opinion would not be in accordance with Canadian reporting standards for auditors when the uncertainties are adequately disclosed in the financial statements. No such reporting standards conflict existed in 1980.

Calgary, Alberta
February 1, 1983

ARTHUR ANDERSEN & CO.
Chartered Accountants

Quarterly Financial Data (Unaudited)

(in thousands of Canadian dollars)

	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
1982				
Coal revenue	\$ 25,872	\$ 36,799	\$ 24,157	\$ 10,703
Coal gross profit (loss)	(9,021)	(4,092)	(19,183)	(5,033)
Corporate expenses	1,277	1,434	1,386	1,294
Income (loss) from operations	(10,298)	(5,526)	(20,569)	(6,327)
Equity in earnings (losses) of affiliates	(4,926)	(6,003)	(10,003)	(10,848)
Net income (loss)	\$ (15,224)	\$ (11,529)	\$ (30,572)	\$ (17,175)
Earnings (loss) per share				
Before extraordinary items	\$ (4.22)	\$ (3.20)	\$ (8.48)	\$ (4.77)
Total	\$ (4.22)	\$ (3.20)	\$ (8.48)	\$ (4.77)
	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
1981				
Coal revenue	\$ 25,736	\$ 45,393	\$ 34,519	\$ 34,646
Coal gross profit (loss)	(3,527)	(1,829)	1,511	(2,020)
Corporate expenses	290	(456)	(208)	665
Income (loss) from operations	(3,817)	(1,373)	1,719	(2,685)
Equity in earnings (losses) of affiliates	3,235	2,888	141	(7,940)
Income (loss) before extraordinary items ...	(582)	1,515	1,860	(10,625)
Extraordinary items	—	—	—	(1,901)
Net income (loss)	\$ (582)	\$ 1,515	\$ 1,860	\$ (12,526)
Earnings (loss) per share				
Before extraordinary items	\$ (0.16)	\$ 0.42	\$ 0.52	\$ (2.95)
Total	\$ (0.16)	\$ 0.42	\$ 0.52	\$ (3.48)
	Quarter Ended			
	March 31	June 30	Sept. 30	Dec. 31
1980				
Coal revenue	\$ 25,866	\$ 36,176	\$ 32,527	\$ 20,644
Coal gross profit (loss)	(109)	3,872	3,105	(9,725)
Corporate expenses	274	511	1,902	(2,052)
Income taxes (recovery)	(380)	1,046	658	(1,824)
Income (loss) from operations	(3)	2,315	545	(5,849)
Equity in earnings of affiliates	12,283	6,468	2,791	3,120
Income before extraordinary items	12,280	8,783	3,336	(2,729)
Extraordinary items	13,995	—	—	—
Net income (loss)	\$ 26,275	\$ 8,783	\$ 3,336	\$ (2,729)
Earnings (loss) per share				
Before extraordinary items	\$ 3.41	\$ 2.44	\$ 0.93	\$ (0.76)
Total	\$ 7.29	\$ 2.44	\$ 0.93	\$ (0.76)

Selected Financial Data

	1982	1981	1980	1979	1978
Production (000's omitted)					
Raw coal (long tons)	1,798	3,108	2,329	1,755	2,133
Clean coal (long tons)	1,226	2,065	1,470	1,044	1,316
Earnings (\$000's omitted)	\$	\$	\$	\$	\$
Revenue	97,531	140,294	115,213	62,667	105,270
Exploration	518	521	1,353	333	4,279
Interest	309	(5,231)	(3,679)	8,620	6,310
Depreciation	10,065	8,046	9,309	9,005	9,083
Amortization	12,207	5,560	4,032	1,909	1,945
Income taxes	—	—	(500)	(2,306)	712
Loss from operations	(42,720)	(6,156)	(2,992)	(2,741)	(2,264)
Equity in earnings (losses)					
of affiliates	(31,780)	(1,676)	24,662	39,226	(94)
Extraordinary items	—	(1,901)	13,995	7,424	1,454
Consolidated earnings (loss)	(74,500)	(9,733)	35,665	43,909	(904)
Per share (a)	(20.67)	(2.70)	9.90	18.45	(0.38)
Dividends paid	—	—	—	—	1,184
Per share	—	—	—	—	\$0.50
Dividends received from affiliates	171	3,030	7,325	5,545	342
Financial Position (\$000's omitted)					
Working capital	5,003	32,142	41,264	31,156	11,003
Investments	135,932	167,725	174,332	142,115	101,010
Property, plant, equipment and deferred development	80,128	95,019	88,877	91,712	98,942
Long-term debt	7,589	6,518	4,594	4,712	68,944
Shareholders' equity	218,163	292,663	302,267	266,269	144,556
Per share (a)	\$60.53	\$81.21	\$83.96	\$111.89	\$61.01
Shareholders and Employees —					
December 31					
Total shares outstanding	3,669,573	3,669,573	3,666,073	3,655,973	2,434,482
Shareholders	1,733	1,891	1,980	2,134	2,513
Employees	697	1,275	1,060	790	822

(a) Per share figures calculated on the basis of average shares outstanding during the year less equity in own shares held by affiliate.

Share Price Information

The following table shows the high and low sale prices of the common shares for each calendar quarter since the beginning of 1980.

	New York Composite (U.S. \$)		The Toronto Stock Exchange (CDN. \$)	
	High	Low	High	Low
1980				
First Quarter	89	35½	103	46½
Second Quarter	80¾	40¾	92	49¾
Third Quarter	84¾	65	98½	76½
Fourth Quarter	62¼	52½	80	62
1981				
First Quarter	62½	46	73½	55
Second Quarter	66¾	47	78½	58
Third Quarter	53	29	63¾	35½
Fourth Quarter	42	27½	50	32
1982				
First Quarter	35	23¼	42	28
Second Quarter	27¾	17¼	34	22½
Third Quarter	25¾	17¾	31¼	22½
Fourth Quarter	26	19⅞	32	25

McIntyre has not paid dividends on its common shares since 1978. While any future dividends will be determined by the Board of Directors after consideration of McIntyre's earnings, financial condition and other relevant factors, it is presently expected that available cash flow will be utilized in McIntyre's coal operations and it is not anticipated that cash dividends on McIntyre shares will be paid in the foreseeable future.

Corporate Information

Head Office

Three Calgary Place
1400 - 355 Fourth Avenue S.W.
Calgary, Alberta
T2P 0J3
Telephone 1-403-267-4847

Directors

F. C. ACKMAN,
President, Chairman and Chief Executive Officer
The Superior Oil Company, an oil company
M. A. COOPER,
M. A. Cooper Consultants Inc.,
independent consultant
THE HON. E. C. MANNING,
Chairman,
Manning Consultants Limited,
independent consultant
A. R. NIELSEN,
Chairman and Chief Executive Officer
Canadian Superior Oil Ltd., an oil company
J. B. REDPATH,
Director
Dome Mines Limited, a mining company
P. J. URSO
President, Chairman and Chief Executive Officer
McIntyre Mines Limited, a coal producer

Executive Committee

F. C. ACKMAN
E. C. MANNING
A. R. NIELSEN
J. B. REDPATH
P. J. URSO

Compensation Committee

F. C. ACKMAN
A. R. NIELSEN
E. C. MANNING

Audit Committee

A. R. NIELSEN
J. B. REDPATH
E. C. MANNING

Officers

P. J. URSO President, Chairman and Chief
Executive Officer
J. P. L. BACHARACH
Vice-President, Operations and Engineering
J. C. POSS
Vice-President, Finance & Planning
W. M. BONE
General Counsel & Corporate Secretary
D. P. KATHOL
Treasurer and Controller

Capital Stock

Authorized: Unlimited number of common shares
without nominal or par value
Issued: 3,669,573
Authorized: Unlimited number of preference
shares without nominal or par value,
issuable in series.
Issued: None

Auditors

Arthur Andersen & Co.
Chartered Accountants, Calgary, Alberta

Transfer Agents

Canada Permanent Trust Company Toronto, Ontario;
Calgary, Alberta; Montreal, Quebec; Vancouver,
British Columbia.
Bradford Trust Company
New York, N.Y.

Registrars

Canada Permanent Trust Company Toronto, Ontario;
Calgary, Alberta; Montreal, Quebec; Vancouver,
British Columbia.
The Chase Manhattan Bank
(National Association) New York, N.Y.

Stock Exchanges

The common shares of the Company are listed for
trading on The Toronto Stock Exchange, Montreal
Stock Exchange and the New York Stock Exchange.

Operations

Coal Division: K. Forgaard, General Manager,
Grande Cache, Alberta

MCINTYRE MINES

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